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March 6, 2002

VIA ELECTRONIC FILING

Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: The Alliance Companies' Report on the Status of Negotiations to
Accommodate the Alliance Business Plan Underneath an RTO Umbrella,
The Alliance Companies, Docket No. RT01 -88-016**

Dear Secretary Salas:

The Kentucky Public Service Commission, State of Michigan, Michigan Public Service Commission and Illinois Commerce Commission ("State Commissions") submit this letter to the Federal Energy Regulatory Commission ("FERC" or "Commission") in response to the letter report filed by the Alliance Companies¹ ("Alliance") in Docket No. RT01 -88-000, et al., on February 19, 2002. The State Commissions write this letter to voice our concerns, similar to those articulated by the Midwest ISO (MISO) and by stakeholders of both MISO and Alliance, that further guidance and direction from the Commission to Alliance unfortunately appears necessary to move the RTO formation process forward.

The heart of the problem is reflected in a few passages from the Alliance letter report. In its report Alliance asserts that it had negotiated an agreement in principle with Midwest ISO, only to be "dismayed" to learn, days before its February 19 report was due, that Midwest ISO could no longer support the agreement because of the "unexplained" opposition of Midwest ISO's stakeholders (Alliance Letter Report at 8-9), a group it characterizes as "an intractable obstacle to achieving the reasonable and equitable arrangements necessary to accommodate Alliance Gridco." *Id.* at 14.

These remarks are, regrettably, symptomatic of a continuing, twofold problem in the Alliance relationship with stakeholders. The State Commissions have pointed out on numerous occasions that Alliance has taken neither the steps needed to ensure Alliance Gridco's

¹ The individual Alliance Companies and their proper corporate identification are listed in footnote 1 of their February 19, 2002 letter.

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independence from transmission owners nor its willingness to develop a meaningful stakeholder process. Alliance and MISO stakeholders are, to a large extent, one and the same group. The *only* reason that MISO stakeholder objections to Alliance's "agreement" with MISO would have remained "unexplained" is that Alliance, in contrast to MISO, chose not to consult those same stakeholders about its plans.

State Commissions agree with the views expressed in the responses of MISO and the stakeholders in their respective letters of February 25 and 27 that stakeholders are not an "intractable obstacle," but an essential part of the process that will lead to integration of the Alliance transmission grid into a single Midwest RTO -- MISO. Accordingly, State Commissions urge the Commission to send a message to Alliance: If it is not clear from the December 19 Order already, the Alliance Companies have two options for participation in MISO -- they can join as individual transmission owners or they can seek qualification as a Transco under the terms of Appendix I. If they choose the latter option, because it is close to their "business model," but cannot assure through National Grid the Transco's independence within a reasonable period, then, as stakeholders suggest, the individual Alliance companies should, in the interim, join MISO as transmission owners. The bottom line, as Kentucky Public Service Commissioner Gillis stated on behalf of the State Commissions, is that Alliance participate in MISO so as to end rate pancaking and form a seamless market:

The states have worked for a long time now, in many different forums, to develop a consistent regulatory framework for the Midwest that resulted in a seamless market.

We have been involved in the advisory committee and its many sub-committee work groups, and will continue to do so.

My comments now, however, are not made as one of many stakeholders. Rather, I make these comments representing state regulators who have higher statutory obligations to the public interest.

Any negotiations, with the Alliance Companies, National Grid, or any future entity, should not negotiate away what has already been established by FERC or the states. Any settlement that results in creating seams rather than eliminating them is a non-starter. Any settlements that result in pancaking of rates are a non-starter. Our message to both the MISO and the Alliance Companies is to urge them to continue to negotiate in good faith. We should recognize the parameters of the reality of what has already been laid

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out by the FERC orders, as a minimum. The time to make the hard choices
is now, and we urge both parties to conclude these discussions and get the
much needed certainty into the Midwest markets. ²

MISO seem to have taken Commissioner Gillis's words to heart. Alliance has not.

Respectfully submitted,

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and the Michigan Public Service
Commission
and
On Behalf of the
Illinois Commerce Commission

cc: The Honorable Pat Wood, III
The Honorable William L. Massey
The Honorable Linda K. Breathitt
The Honorable Nora Mead Brownell
All parties on official service list

²Quoting MISO letter of February 25, 2002 in Docket No. RT0